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C O N F I D E N T I A L SECTION 01 OF 02 OTTAWA 001341

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SUBJECT: LIBERAL PARTY WOES

REF: A. OTTAWA 1325  
1B. OTTAWA 1324  
1C. OTTAWA 1293

Classified By: PolMinCouns Scott Bellard, reason 1.4 (d)

11. (C) Summary. The predicted resignation of Liberal leader Stephane Dion, perhaps very soon, will not solve the party's problems, which are financial, geographic, substantive, and perhaps generational. The likely continued disarray within the party -- even with possible a new leader -- must be welcome news for the Conservatives and their ability to govern in the 40th Parliament. End Summary.

12. (C) The media drumbeat has begun in earnest for Liberal Party leader Stephane Dion to resign -- immediately -- in the wake of the party's disastrous showing in the October 14 federal election (refs a and b). Dion has been in seclusion in the Official Opposition Leader's residence in Ottawa since his election night speech, reportedly deeply in discussion with key advisors on his and the party's next strategic steps, including how to pay off hundreds of thousands of dollars of personal debt he incurred in the 2006 Liberal Party leadership race. Many media commentators expressed mild surprise that he did not announce his resignation as party leader as early as October 15; a new Globe and Mail report predicts that he will do so on October 20. But the bottom line remains that no one really knows. One report claimed that his wife -- to whom he listens closely -- has been urging him to stick it out and resist pressure to resign.

13. (C) There are no quick fixes that could restore the Liberals to its long-standing status as the "natural governing party" of Canada. Whether Dion stays or goes sooner or later, the Liberals will still only have 76 members in the House of Commons (along with 60 Senators in the appointed 105-seat upper chamber), a far cry from the majorities of a decade ago or even the 103 seats they won in the 2006 election. Their coffers are virtually empty, due to lackluster fundraising (ref c) and a failure to adapt to the stricter campaign finance rules they themselves put in place in 2004 -- no new leader could quickly reverse this downward trend. Furthermore, the annual allowance that the party receives from Elections Canada is based on a formula of \$1.75 per vote in the election; this revenue will now drop annually by an estimated \$1.6 million -- immutably until the party does better in a future election. Their share of the popular vote was a historic low of 26.24 pct, down from 30.23 pct in 12006.

14. (C) The Liberals' claims to be a national party are also increasingly weak, as Elections Canada's handy color-coded map inadvertently highlights. Losses of seats in Nunavut, Manitoba (apart from long-time MP Ralph Goodale's), Saskatchewan, New Brunswick, and rural Ontario turned the previously Liberal red-dominated map into one with primarily pockets of red only in Toronto, Montreal, and Vancouver, plus the Yukon Territory and Newfoundland, with both the Conservatives' blue and the New Democratic Party's orange taking over formerly Liberal parts of the map. The pale blue

of the Bloc Quebecois continues to dominate Quebec, of course.

15. (C) If and when Dion does decide to resign -- with options including staying on as leader until a leadership convention perhaps not until May 2009, or turning over the helm sooner to an interim leader -- it will likely tough to form a strong intra-party consensus on a new leader. Deputy Party Leader Michael Ignatieff and Foreign Affairs Critic Bob Rae remain foremost among the media speculation frenzy to replace Dion. However, the baggage they carry -- both losers in the 2006 race, both over 60 years old, Ignatieff's long-time residency in the U.S., and Rae's johnny-come-lately switch from the NDP as well as memories of Ontario's severe economic woes when he was NDP provincial Premier in the 1990s -- remains tough to lift for some party members. Former Liberal Deputy Prime Minister John Manley has reportedly floated his name to replace Dion, but as a non-MP, he would seem an odd choice to take over at such an important juncture. The Liberals have no obvious Barack Obama-like leader on the horizon who could instantly galvanize new energy and new support for the party, even assuming an uncharacteristically graceful and non-self destructive leadership race this next time around.

16. (C) The Conservatives like to say that Canada is simply becoming more conservative, or at least moving more to the center over time, which may be partly true. There are some indications that second generation immigrants -- once almost entirely a captive audience for the Liberals, or, to a far lesser degree, the NDP -- are indeed turning to the Conservative Party or at least listening much more carefully

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to its messages. The Liberals may have taken this important constituency too much for granted, and may now be paying the price. Dion's insistence on keeping the complicated "Green Shift" plan as the centerpiece of the Liberals' platform and of his campaign instead of many other potentially more appealing aspects of the platform dealing with education, health care, and social welfare did not help. The next Liberal leader will have to pulse carefully to choose a substantive focus with truer voter resonance.

17. (C) The longer the Liberals remain in organizational disarray -- with or without the unpopular Dion at helm -- the more the Conservatives are apt to benefit, and the better their chances of continuing to govern during the tenure of the 40th Parliament without fears of losing a vote of confidence and facing the electorate for the fourth time in four or five years.

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